



ACHIEVING PROFITABILITY IN DYNAMIC MARKETS

Automotive industry: how to master changes and strengthen competitiveness

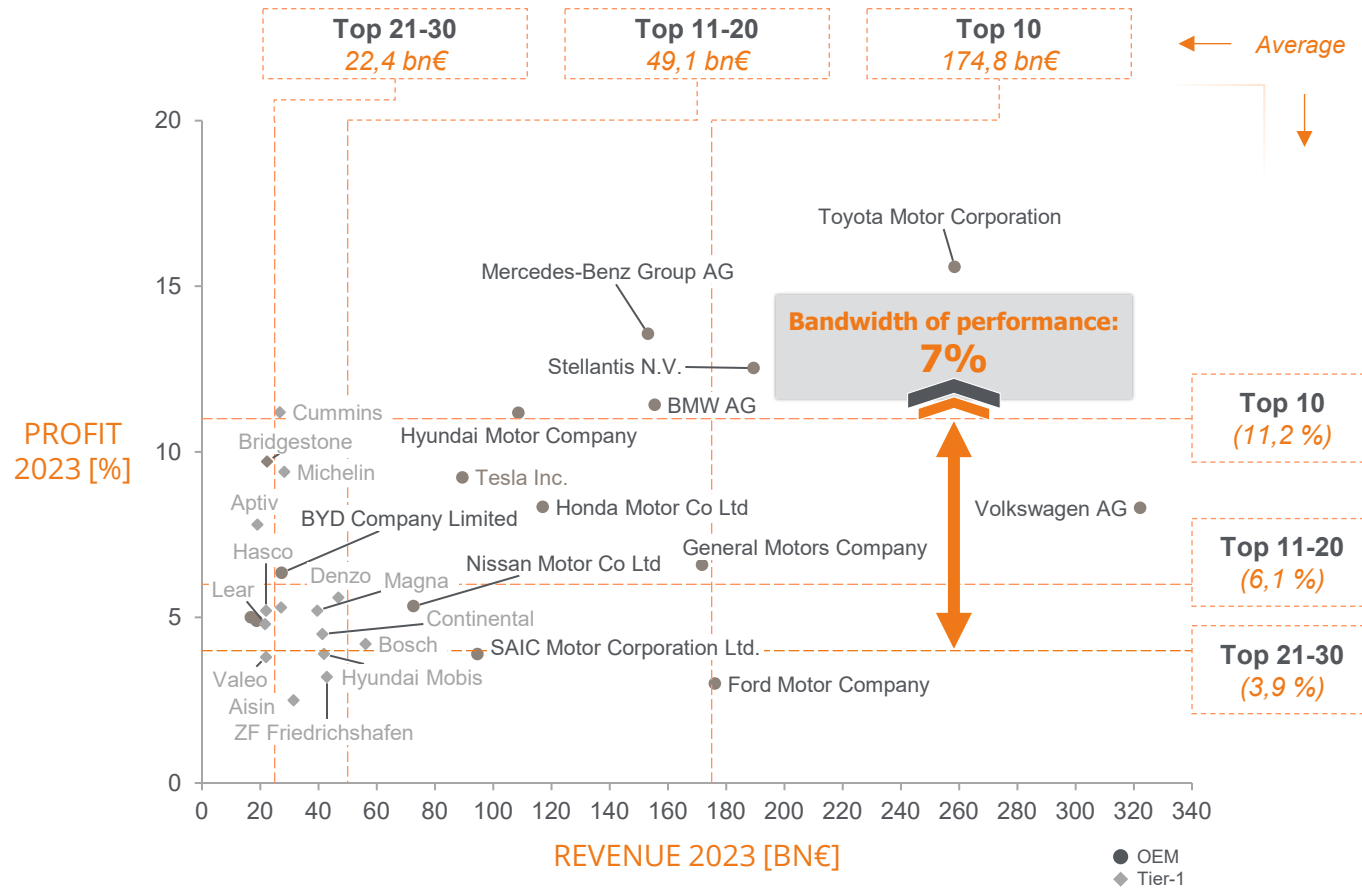
EFESO
MANAGEMENT CONSULTANTS

PRODUCT EXCELLENCE



INSIGHT

Situation: The challenge lies in sustaining profitability while navigating the complexities of a difficult market environment

€ Profit vs. revenue – OEM / Tier-1 view*



Top challenges – OEM / Tier-1 view

-  **Remain competitive** in a tough global environment
-  **Increase profitability** by hitting cost & performance benchmark
-  **Managing the transition** to e-mobility in a profitable way
-  **Staying ahead** in a constantly evolving technology race
-  **Managing changing regional requirements and regulation**

*Sources: CEOWORLD, 2023 (OEM); Manager Magazin, Tier-1 2023 Performance Data (Tier-1)

Root-cause: established approaches focused on 'product cost optimization' do no longer work in a lower-volume, high intensity environment

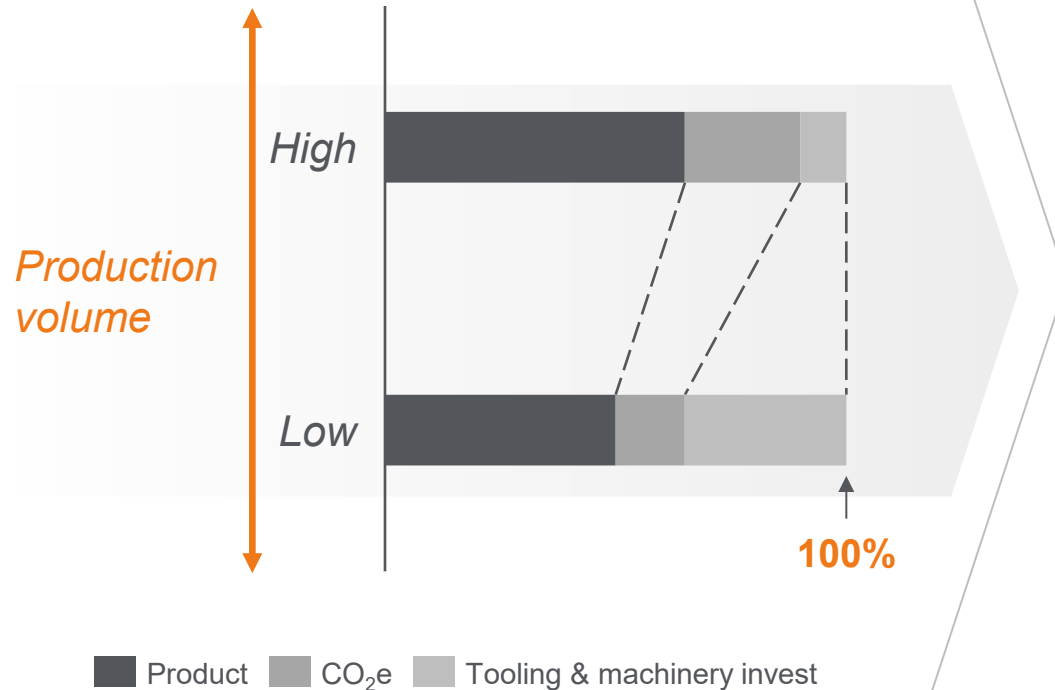


Our unique capabilities are in cost-, tooling-, invest- and CO₂e analysis

A snapshot of our current experience...



The importance of different optimization levers is changing, because of lower volumes



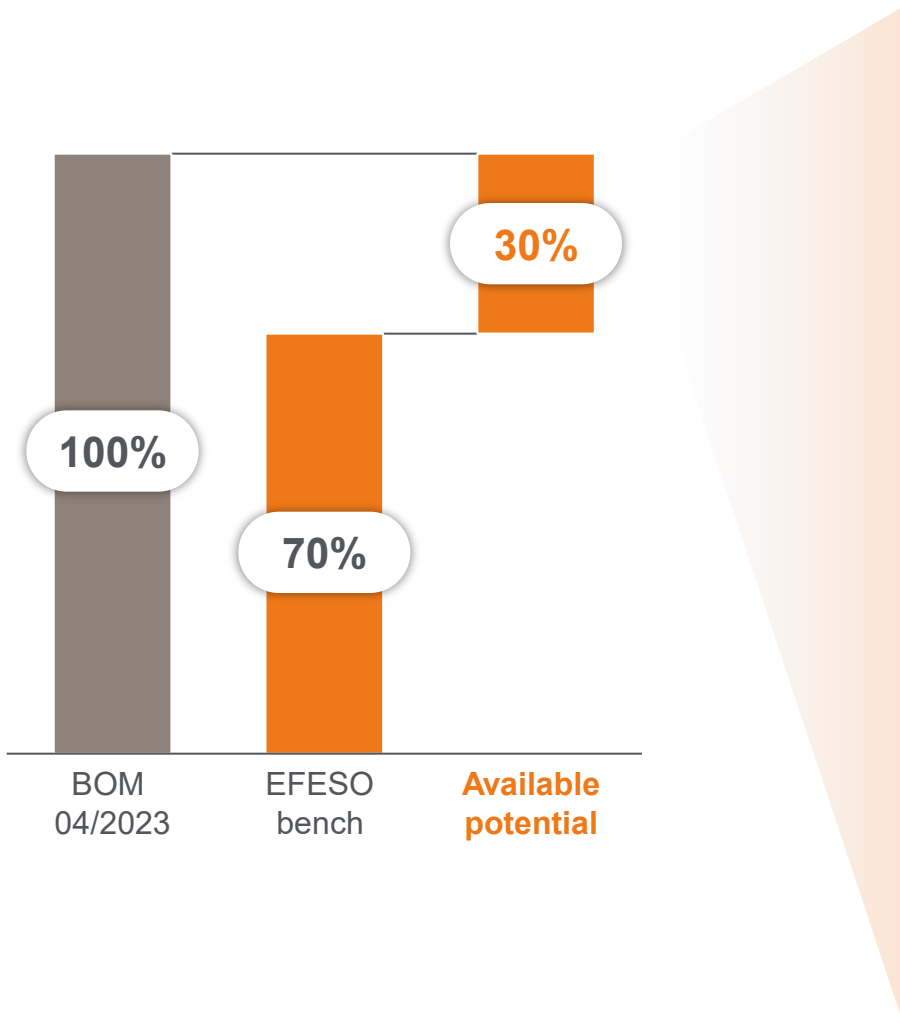
Our insights

Optimizing performance in a lower volume world requires a switch away from high-volume thinking:

- **Comprehensiveness**
Full analysis of all optimization levers relevant for production volumes
→ integrated product-, tooling-, invest- and CO₂e analysis
- **Granularity.**
In-depth analysis of all processes technologies, assumptions etc., across the entire supply chain
→ key to winning in complex supplier negotiations

Our capabilities in the above areas make us second to none in this field.

Consequence: saving potentials of up to 30% remain untouched – across all modules, technologies, cost drivers



| Module | Potential distribution | Prioritized parts |
|-------------------|------------------------|--|
| Powertrain | | HV battery (A), MCU (B), EDU (A), Bi-direct charger (A) |
| Chassis | | Steering (B) |
| Thermal | | HV coolant heater (A), HV compressor (B), HVAC module (B), radiator fan module (B) |
| Interior | | Smart material, intelligent surfaces etc. |
| Body structure | | Alu profiles (A), sheet profiles (A) |
| Body closure | | Rear hatch solar (A) |
| Exterior | | Bumper (A) |
| Infotainment | | Information head unit (B) |
| Electrical system | | Parking aid sensor (A), Front camera module (C) |
| Total | | |



EFESO: we are already delivering some of the largest transformation programs in this field: you have an opportunity to take advantage of – and profit – from that expertise

> € 20bn

volume of awarded business

7 OEMs

*across all regions,
including volume and premium*

Multi-billion

*gap to break-even to
become profit neutral*

Full Scope

*there are no sacred cows,
everything will be optimized*

> € 2bn

*business case improvement
implemented after just 12 months*

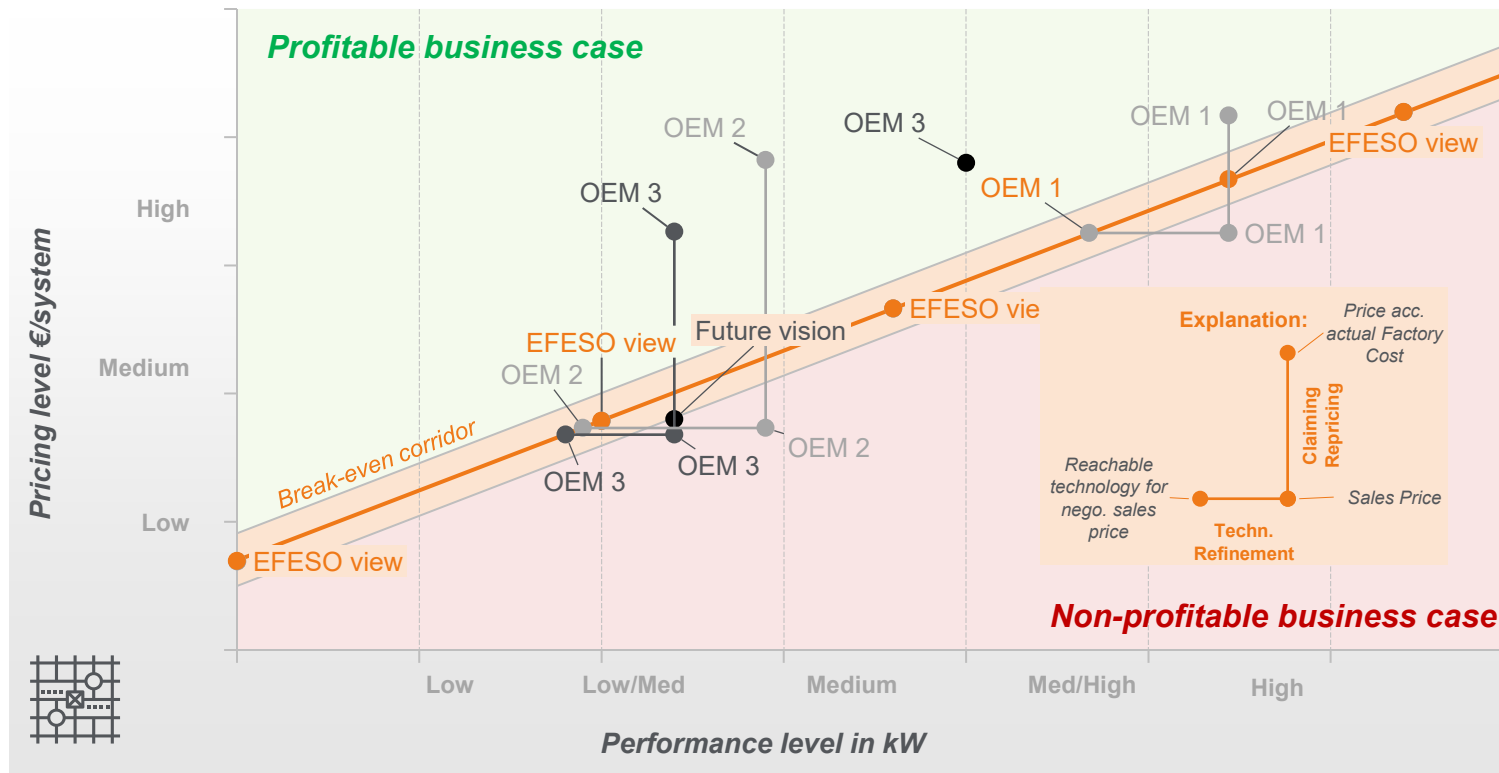
Your chance

*use this blueprint to
overcome your challenges*



Client example, e-Axles: we are supporting the e-transformation ambitions of a global Tier-1 automotive supplier, helping to establish it in the fast-expanding e-Axle sector

Profitability positioning system to support client's target pricing



Initial customer situation

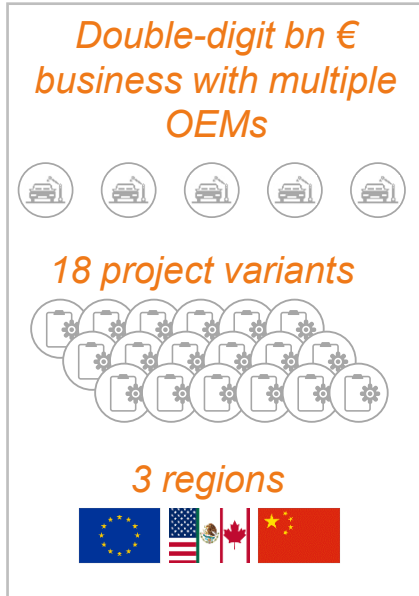
- **New technologies reduce entry barriers and competition**, significantly altering **cost structures** and **market prices**
- **EFESO provides clear price recommendations** through **profitability and performance benchmarking**
- **Business sold below internal target values and suggested price recommendations** given by EFESO
- Customer asked for support to help make the business case profitable
 - › **Holistic cost-down approach** to reduce costs across all areas
 - › **Strategic claiming and repricing initiative** aimed at OEMs

Resolving this profitability issue was of critical importance from the outset. Transparency was urgently needed!



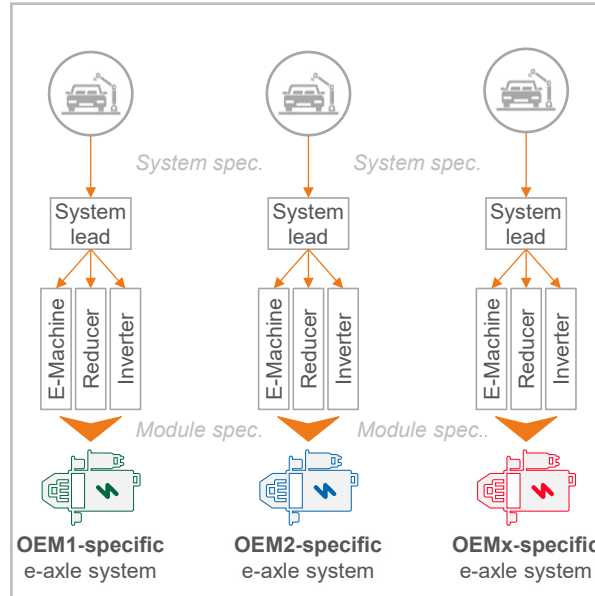
Client example, e-Axles: multi-customer business already won, ensuring future growth, but with a massive profitability gap and client-specific design requirements

Variant explosion



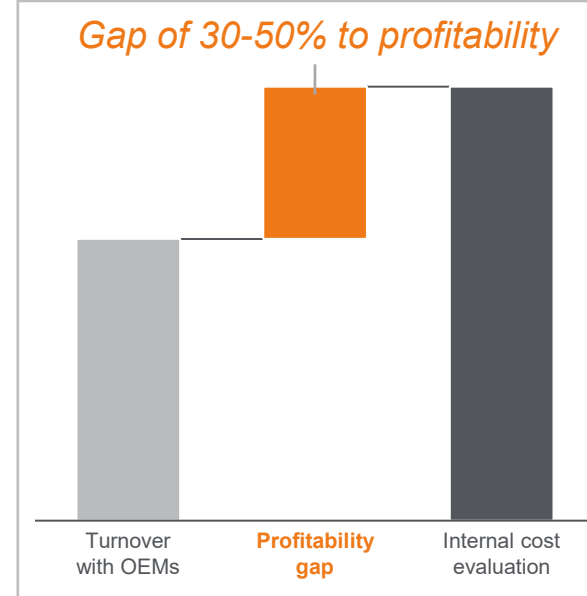
Highly complex number of variants

Missing platform strategy



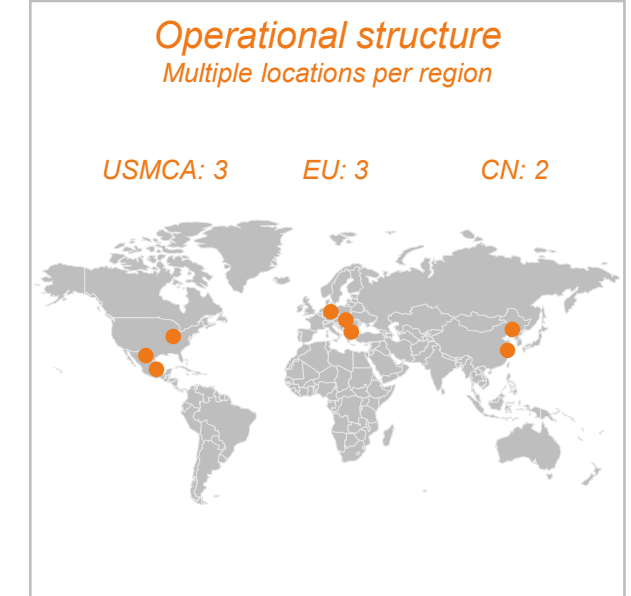
No current platform strategy

Aggressive pricing



Extremely competitive market environment

Wrong global footprint



Inefficient plant structures and processes, in the wrong locations

Client example, e-Axles: our challenge was to simultaneously manage all the identified optimization levers, in order to achieve a rapid, holistic turnaround

Customers situation



Our approach to turn around the case | established workstreams

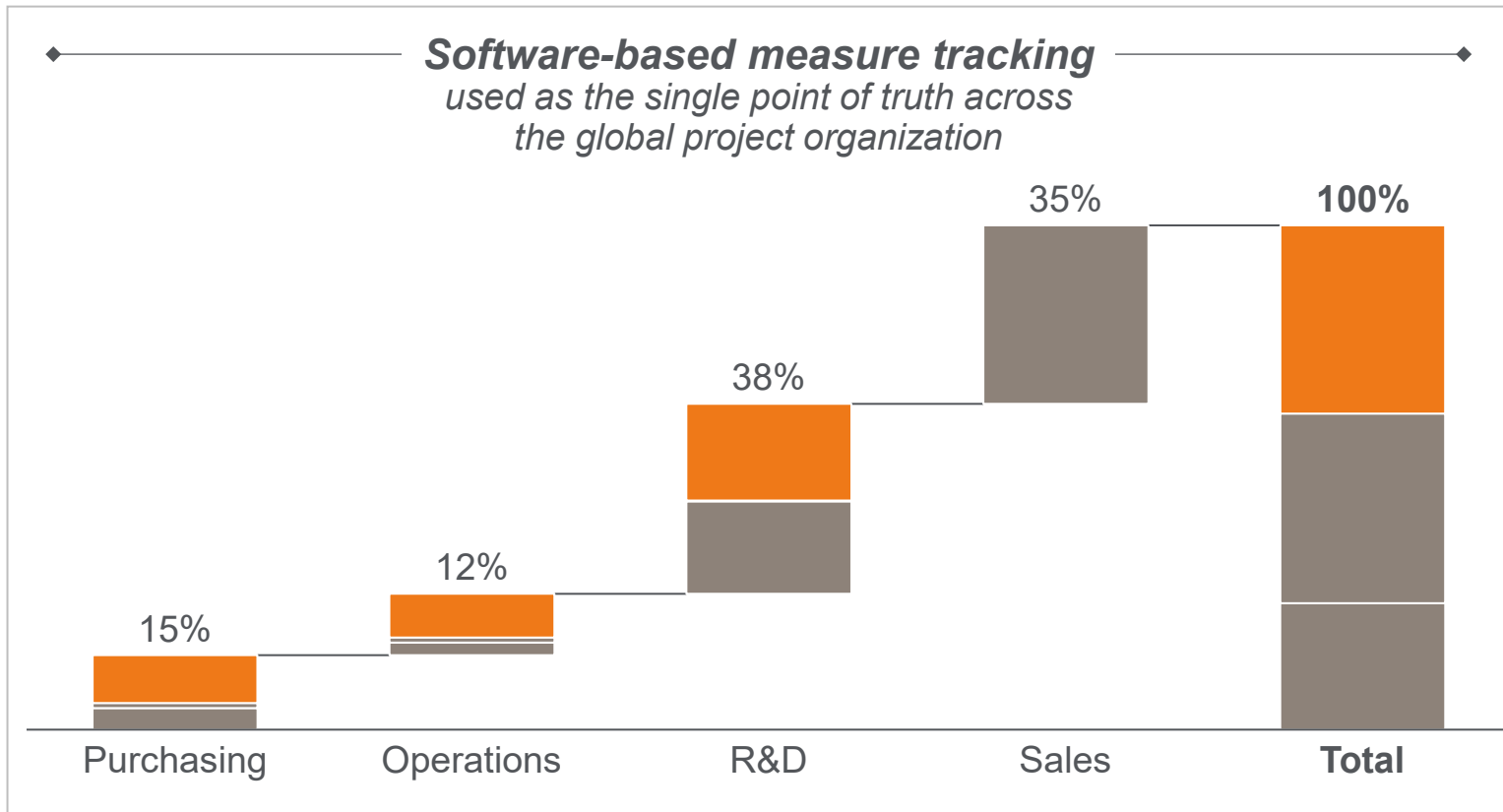
- 1 Purchasing**
 - Agile awarding concept
 - Cost-down strategy
 - Design to cost
 - >50 supplier workshops
- 2 Operations / manufacturing**
 - Target costing & gap closure strategy
 - Harmonized assembly concept
 - Manufacturing cost-down
 - Overhead optimization
- 3 CapEx**
 - Technical optimization of equipment
 - Standardization multi customer lines
 - Invest delay / cancellations
 - Line balancing
- 4 Sales**
 - Strategic sales initiative – wargaming
 - Volume claims
 - Negotiation preparation
 - Cost disclosure strategy & preparation
- 5 R&D**
 - Platform development
 - C-sample push
 - Specification benchmark
 - Technical cost-down workshops
- 6 Cost mgmt.**
 - Target costing
 - Cost based supplier negotiation
 - Design-to-cost savings evaluation
 - Cost status management
- 7 SG&A**
 - Efficiency in organizational structure
 - Target productivity vs. benchmark
 - Plant benchmark
- 8 Global PMO**
 - Project lead
 - Top management reporting
 - Business case responsibility
 - Workstream steering
- 9 Launch / SOP**
 - Ensuring successful product launches



Client example, e-Axles: since the project started at beginning of 2023, significant progress has been made towards the goal of achieving profitability



A snapshot of the current savings that have been achieved



We deliver on our promises!

The project is still running but large-scale savings have already been delivered



- **Savings:** Single digit € bn business case improvement achieved with our unique holistic profitability approach
- **Holistic approach:** Savings coming from all areas, technical, commercial, operational as well as structural
- **Pricing with OEMs:** In addition, a structured claiming initiative (including war-gaming) has led to 100% explainable and justifiable price increases at our customer's OEMs



The keys to success are clear target-setting, a team approach (in collaboration with the client), combined with EFESOs unique profitability-focused approach, bringing in any, and all, necessary expertise in important product-related areas.

